So What Now? Regular readers of this Laptop Report know that I am not surprised by the failure of the 12 members of the "Super Committee" to come up with an agreement for $1.2 trillion in deficit reduction over the next 10 years. But, I am surprised that Speaker Boehner and Senate Majority Leader Reid did not come up with something. Now, because there was no agreement, the so-called "sequester" or automatic cuts are scheduled to become law on January 1, 2012, although the cuts do not actually begin to occur until one year later.

So, you might ask, what happens next? Because of the 23 Senate Democrats who are up for reelection next year, the Senate majority is extremely risk averse. They literally seem as though they don't want to vote on anything with any controversy for fear that either a yes vote or a no vote will cost them popular support at home. Dozens of bills that have passed the House, some by large bipartisan majorities, have not and apparently will not even be considered in the Senate. So, it looks like nothing much is going to happen in dealing with the deficit for some time to come, right?

Actually, not right. Congress has become even more of a deadline-oriented place lately. When something is on deadline, both Houses are forced to either act or accept whatever consequence inaction will bring. The next 14 months are loaded with deadlines. Most of these deadlines are the result of Congress' inability to make permanent reforms, instead preferring to pass only temporary policies. Below, you will find a list of a bunch of major deficit-affecting deadlines that will have to be dealt with between now and January of 2013, as well as the annual dollar effect on the deficit according to CBO. In the interest of fairness, I have not adjusted any of these figures for "dynamic effects". Although we all know that individuals adjust their behavior when a tax goes up, etc. But, CBO only does "static" modeling so that is all I will show you for now. Also, I will give you only the facts and no commentary for now. You can be sure I will get to that as each of these deadlines approach.

As a baseline, understand that the deficit for the fiscal year that just concluded 9/30/11 was $1.3 trillion. The deficit projection for the current fiscal year which ends 9/30/12 is $973 billion under current law.

December 16, 2011 - The "CR" funding the government for this year expires, requiring either another CR or an actual omnibus appropriations bill. This is unlikely to have any net deficit effect because the non-entitlement spending for this fiscal year was established in the August "debt deal" at $1.054 trillion.

December 31, 2011 - The 1% reduction in payroll taxes that was part of the "tax deal" made last December and part of the "Stimulus" expires. If not renewed, payroll taxes will return to where they were before this "temporary" cut in Medicare and Social Security taxes. If this reduction continues, it will increase the deficit annually by $129 billion.

December 31, 2011 - The so-called "doc fix" expires. Back in a prior deficit reduction act, the rates that Medicare pays doctors and hospitals was cut. But, Congress has suspended this cut every year since then, on a year-by-year basis, largely because of concern that many doctors and hospitals would fail or refuse to take Medicare patients. It is currently illegal for doctors to ask the patient to pay the difference. If this "doc fix" were extended, it will increase the deficit by $298 billion over the next ten years.

December 31, 2011 - The increase in unemployment benefits from up to 26 weeks to up to 99 weeks is scheduled to expire. If the maximum period for which an individual can collect unemployment is again extended to 99 weeks, the deficit will increase by $28 billion next year.

December 31, 2011 - The Alternative Minimum Tax (AMT) "patch" is scheduled to expire. The AMT was put into law in 1969 to tax 100 or so "ultra-rich" people who the government believed were not paying enough taxes. (*Does this sound familiar today?*) It was never indexed for inflation and now, if not adjusted, would add a "penalty tax" to over 20 million families. The "patch" cuts about half of those people out of the AMT. If it is not extended, it would increase taxes and reduce the deficit by $70 billion per year.

December 31, 2011 - There are a number of business tax credits, including the R&D credit, scheduled to expire. If not extended, these will raise about $35 billion annually for the Treasury.

Sometime next year prior to the election, it is likely that the debt limit will run out again. The failure to pass a balanced-budget amendment to the Constitution (it recently failed in the House by 29 votes with 161 Democrats and 4 Republicans voting to oppose it) reduced the authorized debt limit by $300 billion. The "Super Committee” could have added another $300 billion debt limit with more cuts, but they didn't. And, with the economy nearing a double-dip recession, revenue projections have proved to be optimistic and the deficit greater than was estimated when the "debt deal" was done last August. So, at some point in 2012, this limit will likely need to be extended again or we face another government shut-down.

Sometime in the summer, the US Supreme Court will likely rule on the constitutionality of ObamaCare. If they rule it unconstitutional, much or all of its provisions could be invalidated. That could have an effect on spending for Medicare and Medicaid, but we can’t determine what that might be without knowing which provisions are ruled illegal. However, there is no doubt that ObamaCare does increase deficits.

October 1, 2012 - Fiscal year 2013 will begin and Congress will need to pass both a budget for FY 2013 and a "CR", or the requisite appropriations bills, to fund the government. The deficit could be increased or decreased depending on how much Congress decides to spend.

January 1, 2013 - The extension of the "Bush tax cuts" will expire and tax rates will rise on all US taxpayers, and some people currently not paying income taxes will now have taxable income. If they are extended, the deficit will increase by $3.9 trillion over ten years. If the tax cuts are extended only for those with less than $250,000 income per year, the deficit increase drops by $2.3 trillion over ten years. Note that 60% of the deficit effect of letting the Bush tax cuts expire is funded by taxpayers with incomes under $250,000.

January 1, 2013 – Death taxes are scheduled to rise. Under current law, estates under $5 million are not subject to tax. If there is no extension, estates of $1 million or more will begin paying tax. This is forecast to raise approximately $6 billion per year towards deficit reduction.

January 2, 2013 - The automatic sequestered cuts actually go into effect, reducing "security" spending by $55 billion in the first year and reducing what hospitals and other medical providers are paid by Medicare by 2%. Some in Congress are already calling for these cuts to be changed or repealed before they take effect. This would add $113 billion to the deficit in the first year.

Note that in almost every case, inaction by Congress will result in a tax increase or spending cut taking effect and thereby reducing the deficit. The total of all this is estimated at roughly $800 billion per year, of which over 80% would be increases in taxes or reductions in tax deductions or credits. Understand that none of this involves entitlement programs or benefits except to the extent that doctors and hospitals refuse to accept Medicare if their reimbursements are cut. Taxes would literally increase on everyone who gets a paycheck or has taxable income.

According to CBO, if all of these deadlines were allowed to expire, we would still have a deficit in 2014 of $265 billion. Although that would be hugely reduced from last year's deficit of $1.3 trillion, the deficit would then immediately begin rising again unless the major entitlement programs are reformed.